The Financial Times of Indiana

Balanced budget news from the Office of Governor Frank O'Bannon

Monday, January 14, 2002

www.IN.gov/gov

The News in brief...

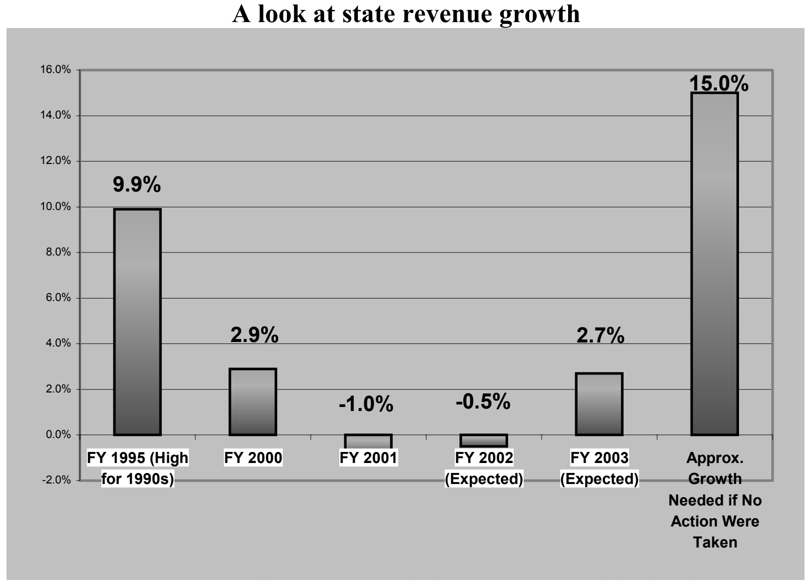
Governor O'Bannon has taken the lead in solving Indiana's budget crisis. In November, the Governor introduced his Balanced Budget Plan, now known as House Bill 1004.

The State Budget Agency imposed spending constraints for fiscal year 2002, and all state agencies are working diligently to determine where more cuts can be made for fiscal year 2003. Many areas of state government are viewing this crisis as an opportunity to review and improve business processes and deliver needed services more efficiently. Making these cuts is very difficult. And as difficult as the process is and as deliberately as agencies are working, the spending cuts will not be enough to balance Indiana's budget.

Total state expenditures will be held to an annual growth rate below four percent for FY 2004 and 2005. Because general state government appropriations account for only 15% of the General Fund budget, these cuts alone cannot resolve the deficit.

Indiana's Revenue Growing Pains

A look at state revenue growth



FY 1995 figure represents highest revenue growth for decade 1990-2000

What is meant by "revenue growth"?

Simply put, the term "revenue growth" compares revenue the state brings in from one state fiscal year (July 1 – June 30) to another.

What People Are Saying

"Fortunately, leadership in the House and Senate seems dedicated to doing something about Indiana's short and long-range fiscal problems. State administration plans are on the table to adjust both the budget and property-tax situations, and they represent excellent starting points for debate."

Muncie Star-Press
Editorial January 11, 2002

Revenue Realities

As the national economy slowed, Indiana also began to experience a cyclical deficit, meaning the state's fiscal standing rises and falls with the performance of the economy. Indiana's deficit is primarily caused by revenue shortfalls in FY 2001 and more dramatic reductions in forecast revenues for FY 2002 and 2003. The state's actual revenue collections in FY 2001 were $91 million below actual collections in FY 2000 - meaning that for the first time in twenty years the state experienced negative revenue growth. The current forecast is for revenues to decline again in FY 2002. In recent history, there have never been two consecutive years of revenue declines. As a result of the national economic slowdown, Indiana will lose a projected $3.1 billion in revenue it would have received had it achieved average revenue growth of 5.25 percent during fiscal years 2000-2003.

Around the States Update

Check out these news links for updates on the national economy:

http://www.bloomberg.com/

http://www.cnn.com/

http://public.wsj.com/home.html

Cutting Where It Counts—Choices Affecting Hoosier Services

One-Time Reversions	**FY 2002**	**FY2003**
Cuts in all Operating Categories EXCEPT K-12 Education	$113.0	$203.0
No Pay Raises for State Employees (for a period of six months)	$15.0	-
State Capital Projects Cutbacks	$32.0	-
Higher Education R&R Cutbacks (Repair and Rehabilitation)	$16.0	-
General Fund Cuts		
State Government Appropriations	-	$109.0
Medicaid Cuts from April 2001 Forecast	$100.0	$150.0
Higher Education University Operating Appropriations	-	$29.0
TRF Cost of Living Appropriations (Teachers Retirement Fund)	-	$15.0
(figures are in millions of dollars) **TOTAL:**	**$276.0**	**$506.0**

For more information, contact Cheryl Reed or John Zody at 317-232-1012